SIERRA CLUB
FOUNDED 1892

MICHIGAN CHAPTER

Comments on SB 437

September 30, 2015

To: Chairman Nofs and members of the Senate Energy and Technology Committee

RE: Senate Bill 437

On behalf of our 60,000 members and supporters in Michigan, the Sierra Club expresses our opposition to SB 437 (Nofs) and urges substantial amendments to the bill language to address its significant flaws. SB 437 would establish a revised integrated resource planning (IRP) process as a substitute for Michigan's current renewable energy and efficiency standards. The IRP process created by SB 437 is intended to fill in the gaps in its companion bill, SB 438, which would eliminate Michigan's renewable energy portfolio requirement and sunset its energy optimization program. IRP processes, and in particular the utility-driven approach contemplated by SB 437, are not effective replacements for clean energy standards. Instead, to achieve clean energy goals, integrated resource planning needs to be conducted in conjunction with clear standards and incentives.

In Michigan, residents have realized many benefits of mandated clean energy standards since the passage of Public Act 295 in 2008. Those enforceable standards created jobs, saved ratepayers money, and enhanced economic development, while simultaneously protecting the health of Michigan's citizens by reducing the use of dirty and costly fossil fuels in our energy sector. Now is the time to increase Michigan's clean energy standards, not to gut them. Our own state agencies, as well as nationally acclaimed energy experts, have demonstrated that our state can dramatically increase its renewable energy and efficiency capacity while boosting our economy and protecting our environment.

Even if Michigan's current standards remained intact, or were improved as recommended in Sierra Club's August 15th letter to this Committee regarding SB 438, the IRP process in SB 437 suffers from several flaws. To more fully maximize the benefits of integrated resource planning, and to ensure a clean energy future, the IRP process must, at a minimum: engage stakeholders early and in meaningful ways; provide for the fullest possible consideration of clean energy and energy efficiency technologies; require utilities to engage in robust modeling; and assess compliance costs with all reasonably expected future regulations, in addition to applicable laws. In SB 437, the process falls short on many of these issues. Michigan legislators should amend or reject SB 437 because it would undermine Michigan's progress to date and put our future at risk.

An IRP process alone will not drive energy efficiency

An IRP process can be a strong complement to a robust energy efficiency program, but it is not an effective replacement for one. In December 2014, the American Council for an Energy-Efficient Economy (ACEEE) reported a striking difference in efficiency spending and savings between states with standards and those without, regardless of whether the state had an IRP requirement in place[1]. The researchers found no statistically significant difference between efficiency spending or savings between

[1] http://aceee.org/blog/2014/12/irp-vs-eers-there%E2%80%99s-one-clear-winner-

IRP and non-IRP states without standards, while states with efficiency standards had three times the amount of spending and savings as those without. This analysis has been borne out in Michigan, where the MSPC estimates that customers save close to $4 for each $1 invested by the utilities.[2] Moreover, Michigan's energy efficiency industry employs more than 46,000 Michiganders, and contributes 2.3 billion to our economy[3], all while reducing greenhouse gas emissions.

Sun-setting our successful energy optimization standard puts these savings and this economic sector at risk. At present, utilities have a strong disincentive to engage in customer energy efficiency programs, as higher sales of energy lead to higher utiltity revenues. While SB 437 provides for decoupling of utility profits from sales, which can neutralize the disincentive for efficiency, decoupling does not create a financial incentive to save energy that is comparable to the incentives that exist for investment in new capital assets like powerplants. Neither will the IRP process create such an incentive.

As written, SB 437 requires that utilities only show that their submitted IRPs are "least-cost," without regard to the benefits offered by new clean energy or energy-efficient technologies. Moreover, under SB 437, the Michigan Public Service Commission (PSC) would only be tasked with evaluating energy savings that are "technologically" and "economically" feasible at a fixed moment in time[4]. It does not appear to be required to model higher levels of efficiency investment, nor, with the elimination of the EO program, would it consider any minimum level of energy efficiency. This contravenes several best practices that have been identified for the integration and encouragment of cost-effective energy efficiency measures[5]. With essential improvements, and the preservation of our energy optimization program, an IRP process could be step in the right direction. In its current form, however, SB 437 and its companion legislation will negatively impact a cost-effective measure that has decreased customer rates and reduced energy waste.

Creating "flexibility" does not require the repeal of renewable energy standard

Some supporters of SB 437 and SB 438 justify their proposal with an ideological opposition to mandates, and view this legislative package as restorative of market forces. These bills place Michigan's energy future solely in the hands of the IRP process by invoking a need for flexibility. It is worth noting that utilities are not players in a free market; they are government-granted monopolies that enjoy guaranteed profits. It is not unreasonable to require them to reduce waste and invest in clean power.

The current renewable energy standard – which requires utilities to generate at least 10 percent of their electricity from renewable sources – can hardly be said to limit flexibility. Moreover, it has been a boon for our economy and residents. Since it was enacted in 2008, it has driven down the cost of generating

[2] Michigan Public Service Commission, 2014 Report on the Implementation of P.A. 295 Utility Energy Optimization Programs, November 2014.
[3] Michigan Energy Innovation Business Council and 2013 Michigan Workforce Agency Energy Cluster Analysis
[4] SB 437, page 26, ll. 23-25.
[5] State and Local Energy Efficiency Action Network, Using Integrated Resource Planning to Encourage Investment in Cost-Effective Energy Efficiency Measures, September 2011.

power and delivered $2.9 billion[6] in new investments in Michigan. It's also been a big job creator; our state added 3,600 clean-energy jobs in 2014 alone.[7]

The fossil fuel industry, on the other hand, received $502 billion in overall subsidies from U.S. taxpayers in 2012, according to a report from the International Monetary Fund. In comparison, the renewable energy industry (excluding biomass) received $24 billion in federal support in 2012, less than five percent the subsidization of fossil fuels. In addition, the International Monetary Fund recently reported that fossil fuel pollution costs the world $5 trillion annually in public health and environmental problems. Pollution costs are externalized from the market and are another form of fossil fuel subsidization, balanced out by costs to people's health and degradation to our natural resources. For example, right here in Michigan a 2011 report from Environmental Health and Engineering, Inc. showed that particulate matter pollution (PM2.5) from Michigan's nine oldest coal plants are costing $5.4 billion a year in public health costs.

Under SB 437 and SB 438, the renewable portfolio standard (RPS) would be replaced with an IRP which does nothing to correct the over-subsidization of fossil fuels or to internalize pollution and public health costs into electric generation costs. The IRP should be complemented by an RPS, especially since renewables are cheaper[8] than new conventional power generation. An IRP alone will not result in substantial progress toward renewable energy development.

SB 437 and SB 438 fail to appreciate the dangers of climate change

Combined, SB 437 and SB 438 make for a dangerous proposal that takes Michigan in the wrong direction when it comes to protecting our state from climate disaster. Climate disruption caused by greenhouse gases from human sources is an urgent threat to our everyday lives and our future, and its impact is already being felt in Michigan. Climate disruption is about more than warmer temperatures – it's about disrupting the basic weather patterns that affect almost everything in our lives - our water supplies, how we grow our food, the kinds of diseases we deal with, and the ability to keep our families safe.

We can already see the effects of climate disruption all across America: unprecedented droughts and wildfires in Western states, record-breaking heat in the Southwest and Midwest, Hurricane Katrina and Superstorm Sandy, extreme winter weather in traditionally warm states, and melting glaciers in Alaska and Montana. Extreme weather events are becoming more frequent, harming people, their economic well-being, their health, their homes, and their futures. Right here in Michigan, we've seen cherry and apple crops completely devastated due to abnormal and extreme weather patterns exacerbated by climate disruption. The time to fight climate disruption is now, but enacting SB 437 and SB 438 would contribute to more climate disasters.

Sierra Club members call on our elected leaders to combat climate disruption by moving Michigan beyond fossil fuels and towards true clean energy sources like wind, solar, and energy efficiency. According to a Yale study from last year, 61% of Michiganders believe climate change is happening, 76% believe we should regulate carbon pollution, and 60% support increasing our state's renewable energy

[6] http://awea.files.cms-plus.com/FileDownloads/pdfs/Michigan.pdf
[7] http://cleanenergyworksforus.org/wp-content/uploads/2015/03/2014_Q4_Report_FINAL.pdf
[8] http://cleantechnica.com/2015/06/09/cheap-michigan-wind-energy-set-save-consumers-15-million-annually/

standard. The message is clear: Michiganders oppose the legislative package of SB 437 and SB 438 and want clear metrics for renewable energy and efficiency instead.

Sierra Club's Policy Recommendations

The IRP process established by SB 437 cannot, on its own, provide for a clean energy future in Michigan. It is not a sufficient substitute for Michigan's current renewable energy standards or energy optimization program. We reiterate our recommendations for those mandates from our August 15th letter regarding SB 438 here because they relate to SB 437 as well:

- Increase Michigan's renewable energy standard to 30% by 2030, as the Public Service Commission and Energy Office have reported is readily achievable.
- Increase Michigan's energy optimization standard from 1% to 2% annually.
- Remove the existing spending cap on Michigan's energy efficiency program.
- Ensure that "clean" or "renewable" energy is not redefined to include anything that emits greenhouse gasses or creates radioactive waste such as fossil fuels, nuclear energy, or energy from incinerating wastes.
- Ensure that electric ratepayers are able to produce their own energy, either to use for themselves or sell back to a utility company at full retail price, not a wholesale or lowered price.
- Remove the existing cap on net metering and all other regulatory barriers to distributed generation.

In addition, we offer the following specific recommendations on SB 437:

- The Public Service Commission should evaluate IRPs based on the reasonableness of costs and rate impacts in consideration of the benefits offered by new clean energy and energy-efficient technologies and give its fullest consideration to those technologies, rather than evaluating utility IRPs simply on the basis of "least-cost."[9]
- The Public Service Commission and utilities should consider environmental compliance costs with all reasonably expected future regulations, not only those formally proposed or published in the Michigan Register or Federal Register.[10]
- The IRP process should provide for early and meaningful stakeholder engagement, both in the Public Service Commission's development of statewide parameters for IRPs and the utilities' planning process, rather than providing only for responsive comments and contested case hearings (respectively).[11]
- Require use of levelized cost-curves for demand-side resources, including energy efficiency, that are comparable to the levelized cost curves for supply side resources.
- Utilize credible load forecasts by requiring load modeling to address a range of possible load forecasts, not just the most likely forecast (e.g. a high-growth and low-growth forecast as alternatives to the reference case).

[9] *See* SB 437, p. 28, ll. 11-13.
[10] *Id.* at 26-27, ll. 26-27, 1-5.

- The IRP should be constructed in a way that internalizes environmental pollution and public health costs. These costs are currently externalized from the energy market and get passed onto individuals, health institutions, and others impacted by environmental pollution.
- Require utilities to use and document simulation models that evaluate the cost and risk of multiple possible resource portfolios under numerous future scenarios before arriving at a plan.

For these reasons, we urge you to vote NO on SB 437, or if it goes forward, to amend the bill to strengthen the IRP process in the ways enumerated in this letter. Votes pertaining to this bill will be included in the Sierra Club's legislative scorecard.

Sincerely,

Mike Berkowitz
Legislative and Political Director
Sierra Club Michigan Chapter